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# **Insights into the Governance-Shaping Process of Bangladesh's Village Phone Strategic Alliance**

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# Table of Contents

## 1. Introduction

## 2. Review and Development of Theoretical Concepts

2.1 *Structural Basis of Relative Power in Strategic Alliances*

2.2 *Power Tactics and Strategies in Strategic Alliances*

2.3 *“Critical Asymmetry,” “Dominant Resources and Capabilities” and “Dynamic Power Asymmetry”*

## 3 Overview of the Village Phone Strategic Alliance

3.1 *Snapshot of Overall Value Network and VP Strategic Alliance*

3.2 *Comparative Overview of Features and Inter-dependences of the Members of the Village Phone Strategic Alliance*

## 4 Governance-Shaping Process in the GrameenPhone Joint Venture

4.1 *Formation of the VP Alliance and the Heyday of Gonofone Development’s Power*

4.2 *First Institutionalization of the VP Alliance*

4.3 *Success, Instability and Consolidation of the Contractual Governance of the GrameenPhone Joint Venture*

4.3.1 *Gonofone Development Corp.’s Surprise Move*

4.3.2 *Grameen Telecom(Grameen Bank)’s Efforts to Revolutionise the Governance of the GrameenPhone Joint Venture*

## 5 Conclusions

## Bibliography

## **List of Tables**

Table 1	Types of Power or Influence Tactics / Strategies Identified in the Literature
Table 2	Players in the Village Phone Strategic Alliance
Table 3	Resource-dependences and Dominant Resources and Capabilities of the Constituents in the Village Phone Strategic Alliance
Table 4	Evolution of Total and Rural Subscribers (VLPs) of GrameenPhone 1997 – 2005

## **List of Figures**

Figure 1	Village Phone Strategic Alliance – Operational Roles inside the Overall Mobile- Telephony Value Network
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# Insights into the Governance-Shaping Process of Bangladesh's Village Phone Strategic Alliance

*Alfonso Molina*

## 1 Introduction

In the mid-1990s, telephony was inexistent in rural Bangladesh with the result that about a 100 million people in 68,000 villages were firmly placed in the “never-made-a-phone-call” category. About the same time, the Norwegian telecommunications service provider Telenor had become a leader in GSM mobile telephony and was beginning to look for opportunities for foreign investment. Today, just over a decade later, close to 100 percent of Bangladesh's rural population has access to telephony and over 300,000 micro-businesses have sprung up providing rural mobile-phone services.

Responsible for this change is an international alliance of heterogeneous organizations unlike the many that have been abundantly examined in the academic literature since the 1980s. This new alliance is neither between for-profit firms alone, nor between companies and universities, nor with an exclusive profit-driven market purpose. Instead, it is a hybrid of for-profit and non-profit organizations and purposes, which has given rise to a particular form of business model and, above all, has successfully diffused GSM telephony to a poor area previously excluded from the benefits of connectivity. It is important to throw light on the complexity and challenges of this successful experience in order to contribute its knowledge and lessons to other similar initiatives potentially benefiting millions of poor people in the world. The task is not easy, however, since detailed knowledge of the experience raises substantial conceptual problems. This paper seeks to tackle one of them: *how to understand the evolution of the governance of the heterogeneous strategic alliance, illuminating the processes and factors behind its shaping and dynamics (i.e., governance dynamics)*. Two aspects require immediate clarity: the concept of governance adopted in this paper and the specific organizational scope of the analysis of governance shaping.

The meaning of governance adopted by the paper borrows from the following definitions:

Corporate governance. The location of power and responsibility at the head of an organization. (Thompson, 2001, p.1125) ... Every organization -not only corporations- has a governance system: governance concerns the distribution of power and responsibilities and, accountability for the organization's performance. (Steger and Amann, 2008).

These concepts have a strong behavioural content with power and responsibilities as determining factors in the definition and realization of an organization's strategic direction and performance. Not surprisingly, Hitt *et al.* (2005) identify ownership or equity concentration and board of directors among the governance mechanisms used in the modern corporation. They are both location and distribution of power and, in fact, as this paper will show, power and ownership show a cause-and-effect dialectics whereby one tends to reinforce the other and vice-versa.

On the specific organizational scope of the analysis of governance-shaping, this concentrates on the joint venture at the heart of the entire experience: the GrameenPhone joint venture (JV). Specifically, the analysis follows the evolution of the sources and balance of power among players, as reflected in the changes of equity shares inside the GrameenPhone joint venture from its origins in mid-1996 to mid-2008.

These two clarifications help enhance the focus of the governance-shaping problem raised by this paper.

Methodologically, the paper uses a case study approach and empirical information available in academic papers, reports and online news (for instance, Aminuzzaman et al., 2003; Bayes *et al.*, 1999; Bayes, 2001; Burr, 2000; Chowdhuri, N.D.; Cohen, 2001; Keogh and Wood, 2005; OECD, 2004; Osterwalder, 2004, Quadir, 1999; Richardson et al., 2000; Rothery, 2001), as well as information gathered by the author in conversations with leaders of the experience.

The structure of the paper is as follows. First, the next section 2 contains a review of concepts relevant to the three questions just raised, concentrating primarily on the schools

of resource-base view of the firm, power dependence, exchange networks, resource-dependence and bargaining power in inter-organizational relations. This review leads to the development of the new concepts of “*sustained and temporal critical asymmetries*,” “*dominant resources and capabilities*,” and “*dynamic power asymmetry*.”

Section 3 contains a brief analysis of the overall business model and value network responsible for delivering mobile telephony to Bangladesh. Particular attention is given to the sub-set of key players directly involved in the value chain that reaches the millions of final consumer in the rural villages of Bangladesh. This we call Village Phone strategic alliance. The GrameenPhone JV is the core of this sub-set of key players but not all of it since it depends on the thousands of intermediary Village Phone Operators (VPOs) –also known as Village Phone Ladies- to make the telephony service available to the rural poor (i.e., Village Phone Users - VPU). The discussion contrasts the organizational purposes, legal status, main resources, resource dependences, and sustained or temporal dominant resources and capabilities of the key players sub-set including the GrameenPhone JV.

Section 4 contains the analysis of governance-shaping process of the GrameenPhone joint venture at the core of the VP strategic alliance for a period of over a decade from the first steps in the build-up of the alliance in the mid-1990s until mid-2008. It shows that the vision came from a Bangladesh-born venture capitalist based in U.S.A who commanded the *de facto* shaping power in the period leading to the formation of the alliance; later with the institutionalization stage and formation of the joint venture, other players took the commanding power as shown in the distribution of equity. The reasons for this and for the subsequent battles seeking to alter the original equity distribution are explained in this section using the concepts from Section 2. Section 5 provides a brief conclusion.

## **2 Review and Development of Theoretical Concepts**

The present section identifies and develops theoretical concepts useful to deal with the power-oriented questions raised in the Introduction.

## 2.1 *Structural Basis of Relative Power in Strategic Alliances*

The structural basis of players' relative power in processes of inter-organizational governance-shaping lies on their asymmetric possession of resources and capabilities, particularly, of those "strategically relevant or valuable resources" that Barney (1991) characterized as *valuable* (enable strategies that improve the firm's efficiency and effectiveness), *rare* (not possessed by many competitors), *imperfectly imitable* (cannot be obtained by other firms), and *non-substitutable* (no equivalent valuable, rare and inimitable resources). Scholars from the schools of resource-based, capability-based and competence-based views of the firm have identified the critical importance of this type of strategic resources and capabilities for the sustained competitive advantage of firms, calling them "strategic assets" (Amit and Shoemaker, 1993), "core capabilities" (Leonard-Barton, 1992), "distinctive competences" (Eden and Ackermann, 2000; Hitt and Ireland, 1985), 'differentiated and firm-specific competences' (Pavitt, 1991), "core competences" (Prahalad and Hamel, 1990), or "dynamic capabilities" (Teece *et al.*, 1997).

The concern of this paper is not with firms' sustained competitive advantage but it can be plausibly said that the same strategic resources and capabilities that confer competitive advantage to firms, also confer them with the power basis to negotiate their position inside inter-organizational alliances. In this case, however, the power basis must be acknowledged by the partners in the alliance very much in the way proposed by the *power-dependence* and *network exchange* schools (Emerson, 1962, 1976; Cook, 1977; Cook *et al.*, 1983; Cook and Yamagishi, 1992; Markovsky *et al.*, 1993; Molm 1990; Yamagishi, *et al.*, 1988; Willer, 1992). Particularly, Emerson (1962) made two fundamental propositions on dependence: "the dependence of actor A upon actor B is (1) directly proportional to A's *motivational investment* in goals mediated by B, and (2) inversely proportional to the *availability* of those goals to A outside the A-B relation." (p.32) In other words, power derives from how much A wants what B can provide and whether A has access to alternative sources. A second source of power derives from the position of an actor within the overall exchange



network (Cook, 1977). That is, the degree of vulnerability (dependence) of the network to the removal of a resource controlled by an actor at a given network position defines the power of that position (Jacobs, 1974; Cook, 1977). Cook et al. (1983) uses the term *centrality* and Jacobs (1974) *essentiality*. Of course, if other sources are available for the given resource then the actor has less power to bargain. Emerson (1962) also identifies four balancing moves in case of inequality of power in a relationship: *withdrawal* (weaker part altering motivational investment and moving away); *extension* (power network is extended by the formation of new relationships); *status emergence* (increasing the more powerful member's motivational investment by granting status recognition) and *coalition formation* (some members uniting to deal with another member).

Further useful insights on the foundations of players' relative power in processes of inter-organizational governance come from the *resource-dependence theory* (Pfeffer, 1972; Pfeffer and Nowack, 1976; Pfeffer and Salancik, 2003; Provan et al., 1980; Comstock, 1982; Astley and Zajac, 1991; Gulati and Gargiulo, 1999). It is argued that the dependence of one organization on another is determined by three critical factors: (a) the importance of the resource for the organization's operation and survival, (b) interest group's extent of discretion over the resource allocation and use, and (c) extent to which there are few alternatives (Pfeffer and Salancik, 2003). The power of one organization over another results from asymmetry in the exchange relationship, that is, when the exchange is not equally important to both organizations, for instance, when one large organization has multiple suppliers, while these suppliers' business depend almost entirely on the large organization. Pfeffer and Salancik (2003) also made the related point that the critical issues and uncertainties facing an organization vary from time to time with the result that the criticality of different resources and the power distribution within an organization also vary. Power shifts in favour of those controlling the resources most critical to reduce the uncertainties facing an organization at any given point in time. Finally, in a point concerning formal governance, Pfeffer and Salancik (2003) argue that an important source of power "derives from the ability to make rules or otherwise regulate possession, allocation, and use of resources and to enforce regulations. In addition to being a source of power, the

ability to make regulations and rules can determine the very existence and concentration of power.” (p.49) At the same time, in a similar way to Cook and Emerson (1978), they state that normative concerns also occasionally operate to limit the use and scope of inter-organizational power.

## **2.2 Power Tactics and Strategies in Strategic Alliances**

The structural basis of players’ relative power in strategic alliances is necessary but not sufficient to explain fully the evolution of processes of governance-shaping. There is no determinism between players’ asymmetric possession of strategic resources and network positions and the specific results of governance-shaping processes. As writers from the bargaining power school argue, power position is a necessary but not a sufficient condition of power use, since the latter is very much open to the role of human agency (Bacharach and Lawler, 1976, 1981b; Lawler, 1992; Lawler and Bacharach, 1979; Dwyer, 1984; El-Ansary and Stern, 1972; Etgar, 1976; Gaski, 1984; Korpi, 1985; Molm, 1990; Spiro and Perreault Jr.; 1979; Rao and Schmidt, 1998; Willer, 1989).

French and Raven’s (1959) identify five types of agency-oriented power bases in a dyadic relation between parties A and B: (1) *reward power* – based on A’s ability to reward B and B’s perception that A has the ability to mediate rewards for him/her; (2) *coercive power* – based on A’s ability to administer punishment to B and B’s expectation that s/he will be punished if s/he fails to conform to A; (3) *legitimate power* – based on internalized values, codes or standards that dictate that A has a legitimate right to prescribe behaviour for B and B has an obligation to accept (one form of legitimate power results from delegation or granting of power to a party by a legitimizing agent or authority; (4) *referent power* – based on B’s identification or “feeling of oneness” with A; and (5) *expert power* – based on B’s attribution of expert knowledge to A in some given area. Clearly, French and Raven (1959) five “power bases” have a major cognitive component, based on the perception, expectation, or feeling of the ‘dependent’ party regarding the ‘dominant’ party’s ability, right or attribute to exercise influence. This leads Gaski (1984) to state that, “it may be more

correct to regard the perception itself as the source of power.” (p.10) French and Raven’s typology has endured the test of time and many pieces of writing have used it particularly within the marketing literature (Brown et al., 1983; El-Ansary and Stern, 1972; Hunt and Nevin, 1974; Etgar, 1976, 1978; Lusch and Brown, 1982, Gaski, 1984; Gaski and Nevin, 1985; Lindblom and Olkkonen, 2006).

Lawler, (1992) calls *power-tactics* the moves parties make to seek to influence an opponent’s behaviour. Other authors call them *influence strategies* (Farrell and Schroder, 1999; Kale, 1986), *influence tactics* (Falbe and Yukl, 1992; Rao and Schmidt, 1998), or *influence attempts* (Scheer and Stern, 1992) and *influence modes* (Angelmar and Stern, 1978). Table 1 shows various types of influence tactics/strategies found in the literature.

<b>Table 1. Types of Power or Influence Tactics / Strategies Identified in the Literature</b>	
<b>Authors</b>	<b>Application or Extension</b>
Lawler (1992)	Distinguish <i>conciliatory</i> and <i>hostile power-tactics</i> as well as <i>power-use tactics</i> and <i>power-change tactics</i> .
Frazier and Summers (1986)	Distinguish <i>coercive</i> and <i>noncoercive influence strategies</i> (similar to <i>conciliatory</i> and <i>hostile tactics</i> ) that include threats, legalistic plea, promise, request, recommendation and information-exchange strategies.
Angelmar and Stern (1978)	Develop a typology with 12 categories, including promises, threats, warnings, recommendations, rewards, punishment, positive and negative normative appeals, commitments, self-disclosures, questions and commands.
Kipnis and Schmidt (1985); Falbe and Yulk, (1992); Farmer <i>et al.</i> (1997)	Identify three major classes of influence tactics or strategies: <i>hard tactics</i> , <i>soft tactics</i> and <i>rational tactics</i> . <i>Rational tactics</i> involves the use of logical arguments and factual evidence to persuade a target that a proposal or request is worthwhile.

Finally, a fundamental element of bargaining power theory is a non-zero sum conception of power that recognises that the total amount of power in a relationship can change, so that both parties can either increase or decrease their power without necessarily affecting their relative power positions. This is completely different from the rigid zero-sum conflictive

situation in which a gain by one party in a dyadic relationship implies an equal loss by the other. “Zero-sum conceptualizations focus on *relative* power and assume constant *total* power.” (Bacharach and Lawler, 1981a, p.221) Thus, two additional concepts emerge: *total power* defined as the sum of each party’s (A and B) absolute power, ( $P_{ab} + P_{ba}$ ) remembering that each party’s power is based on the other’s dependence on them; and *relative power* defined as the power difference or ratio of each party’s absolute power (i.e.,  $P_{ab}/[P_{ab} + P_{ba}]$ ). (Ibid., Lawler, 1992). This distinction is highly relevant in an alliance context in which, for instance, the value of the initial partners’ shares grow significantly with time in such a way that total capitalization is larger but the relative equity of each partner remains the same. As we shall see, this is an important element in the story of the GrameenPhone JV at the core of the Village Phone alliance.

### **1.3 “Critical Asymmetry,” “Dominant Resources and Capabilities” and “Dynamic Power Asymmetry”**

The battery of concepts just reviewed provides a sound base for the analysis of governance-shaping in the strategic alliance that has brought mobile telephony to the poor rural areas of Bangladesh. This paper, however, develops three new power-oriented concepts, mostly needed because its central concern is not with inter-firm competitive relation but with collaborative relations involving heterogeneous organizations. The conceptual trio includes *critical asymmetry*, *dominant resources and capabilities* and *dynamic power asymmetry* between one or more organizations (or individuals) interacting to achieve common objectives and goals. These concepts will be useful to establish both the structural basis of players’ relative power inside the VP alliance and the variations that may affect this relative power during the evolution of the alliance.

*Critical asymmetry* is the differential possession or control (access) by interacting organizations of resources and capabilities critical or central for the effective achievement of a task or activity related to the common objective (relation to centrality or essentiality). Unlike in the resource- and capability-based view of the firm, in this case the criticality of a

resource and capability is not defined in relation to competitors and sustained competitive advantages but in relation to collaborators in the pursuit of a common objective. Nevertheless, like in the resource-base view, the resource and capability still must be *valuable*, *rare*, *inimitable* and *non-substitutable*, but this time *valuable* for the achievement of the common objectives; '*rare*' in the rather stretched sense that is contributed by one of the collaborators only; *inimitable* in the sense that collaborators of the organization contributing the resource and capability will neither learn it through spillovers and absorptive capacity nor obtain it from other sources regardless of whether the resource exist or not somewhere else; and *non-substitutable* in the sense that these collaborators cannot access a valuable, rare and inimitable equivalent.

Of course, as the power-dependence and resource-dependence literature makes clear the collaborators' motivational investment in a common venture may differ, with the result that the perception of 'valuable' is relative to the attachment each interacting organization has for the achievement of the common objective and goals, which in turn is determined by the perception each collaborating organization has of the strategic value of the common venture for advancing its own specific motivations and purposes. If there is strong alignment between a collaborator's specific motivations and purposes and the objectives of the common venture, then a 'rare,' inimitable, non-substitutable resource or capability contributed by another collaborator will be most likely perceived as highly valuable and, ultimately, *powerful* in the sense that confers potential dominance (*de facto* power) to its possessor within the common inter-organizational venture. Conversely, if the resource and capability do not show these characteristics, then its value will be much less with the result that the power accruing to the organization contributing it will be weak or a 'non-power' in relation to a stronger organization. This connection with dominance leads to define as *dominant resources and capabilities*, those that by virtue of being considered rare, inimitable, non-substitutable and highly-valuable (central) to the achievement of desired objective and goals confer dominant power to the possessing organization in relation to (or by) the other organizations collaborating in a common venture. This *de facto* power translates into greater potential influence in decision-making and hence in the shaping of

the formal governance (*de jure* power) of the collaborative venture. Governance, however, once formalized, for instance in contracts defining equity shares, acts as a constraining framework for successive decision-making and governance-shaping efforts. As Das and Teng (2000) point out, "Alliance agreements have legal binding, and they may actually discourage partners who acquire more bargaining power from recasting the deal." (p.82)

Finally, as seen above, problems (uncertainties), objectives and goals are not static and vary along the process of creation and development of an organization, as well as with environmental changes that require organization's strategic re-alignments for survival. (Pfeffer and Salancik, 2003; Perrow, 1961) It follows that the *critical asymmetries* and *dominant resources and capabilities* associated with specific problems, objectives and goals at one time may not be the same as for another. From the viewpoint of a player's participation in a given strategic alliance, however, what matters is whether the critical asymmetries and dominant resources and capabilities associated to them remain for the entire length of their participation. When this is the case, it is possible to talk of *sustained* critical asymmetries and dominant resources and capabilities, as opposed to *temporal* critical asymmetries and dominant resources and capabilities, that is, those that exist for a limited period of a player's participation in a strategic alliance. This leads to the final concept of *dynamic power asymmetries* understood as the changeable differential possession or control of dominant resources and capabilities for the achievement of common objectives during the evolution of an inter-organizational venture. Dynamism in power asymmetries is not just the result of external changes or the evolution of an organization. It is also the result of changes pursued by players in a collaborative venture. Indeed, players may seek to shift power asymmetries in their favour by trying to redefine the common objectives dominating an inter-organizational collaboration at a given period of time. Success implies either the degrading of status of a collaborating party's prior dominant resources and capabilities, or the upgrading of the player's own resources status to dominant resources and capabilities, or both simultaneously. Armed with these conceptual instruments, the paper can now proceed to deal with the strategic alliance responsible for bringing mobile telephony to rural Bangladesh.

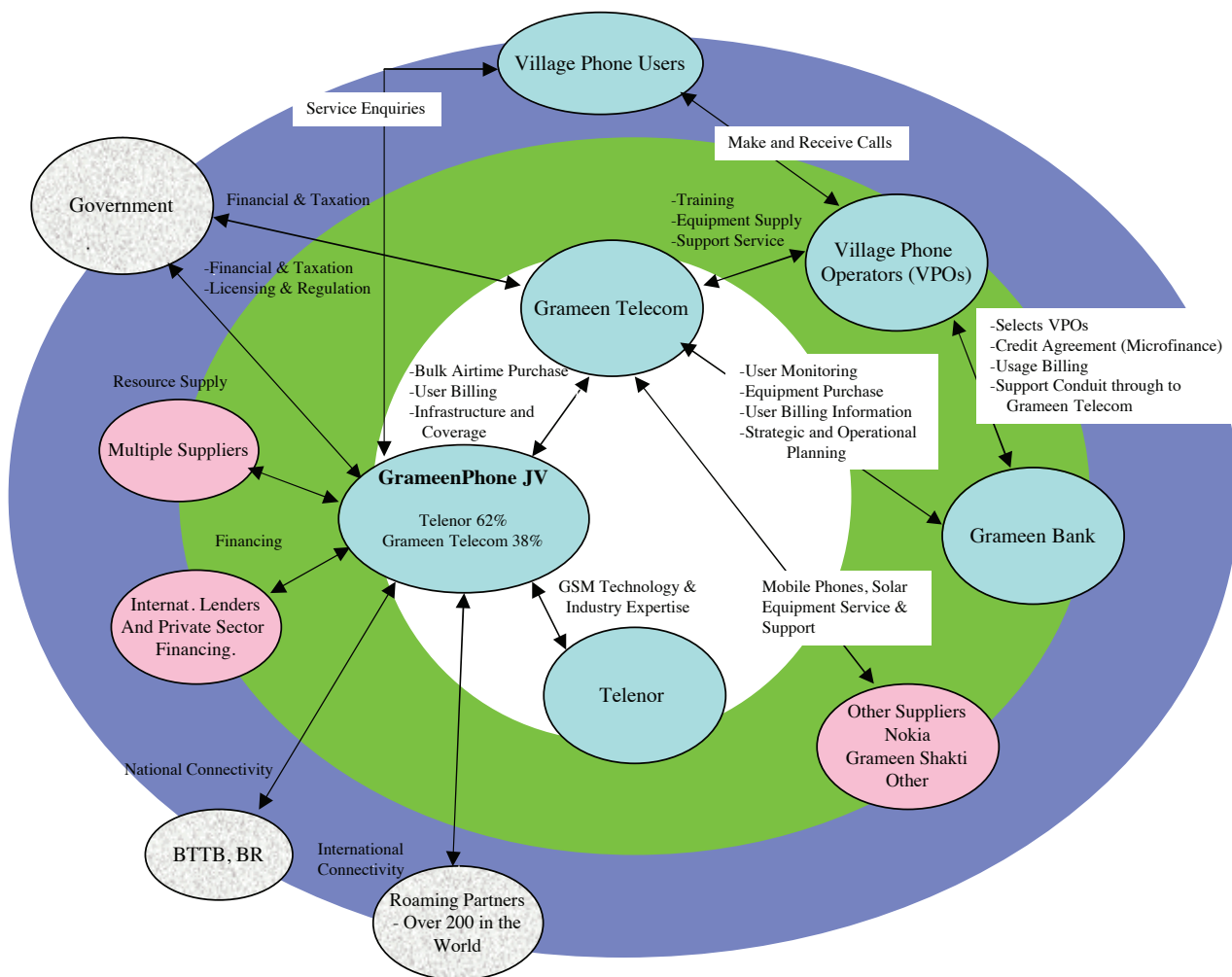
### **3 Overview of the Village Phone Strategic Alliance**

This section presents, first, a brief snapshot of the overall value network responsible for delivering mobile telephony in Bangladesh, with particular attention to the sub-set of key players directly involved in the value chain that reaches the millions of final consumer in the rural villages of Bangladesh. This we have called Village Phone strategic alliance. At the core of this VP strategic alliance is the GrameenPhone JV that depends on the thousands of intermediary Village Phone Operators (VPOs) –also known as Village Phone Ladies- to make the telephony service effectively available to the rural poor (i.e., Village Phone Users - VPU). The brief snapshot is followed by a deeper comparative overview of the different organizational purposes, legal status, main resources, resource dependences, and sustained or temporal dominant resources and capabilities of the players of the VP strategic alliance and its core GrameenPhone JV. This comparative overview sets the foundations for the evolutionary analysis of Section 4 dealing with the governance-shaping process of the GrameenPhone JV at the core of the VP alliance from its origins to mid-2008. For this reason, the comparison will include two additional players who are not part of the present GrameenPhone joint venture but who played a substantial role in its origins and first years of development: Gonofone Development Corp. and Marubeni Corp.

#### **3.1 *Snapshot of Overall Value Network and VP Strategic Alliance***

Figure 1 provides an overview of the different players and their relationships in the overall value-network that has taken mobile telephony to rural Bangladesh. The sub-set of key players constituting the VP strategic alliance is shown in the darker-shaded (blue) ovals, while those players less directly involved in the success of the story are shown in lighter-shaded (pink & grey) ovals. For the VP strategic alliance, this is the consolidated operation as it stands today, for we shall see that its history at the core GrameenPhone JV hides much more turbulence than the static picture of Figure 1 can ever show.





**Figure 1. Village Phone Strategic Alliance – Operational Roles inside the Overall Mobile-Telephony Value Network**

Source. Based on Keogh and Wood (2005), OECD (2004)

In Figure 1 the players in the overall value network are spread across 3 layers. The inner white oval contains the GrameenPhone joint venture at the core of the VP strategic alliance—here three organizations are closely related to each other through ownership (equity) arrangements and complementary roles in the value network – the GrameenPhone JV itself and its two shareholders Grameen Telecom and Telenor. The GrameenPhone joint venture is on its own capable of providing mobile telephone services to urban subscribers, but not to the mass of people in rural Bangladeshi villages, where incomes are very low and few people can afford to buy a mobile telephone. For the latter to happen, two other players are required in the rural value-network: Grameen Bank and the Village Phone Operators (VPOs) (intermediaries) who are the direct service providers to the Village Phone Users



(VPUs) or Village Phone Ladies (VPLs) since most of them are women.

In Figure 1, Grameen Bank and VPOs are found in the second layer (middle green oval) external to the joint-venture but essential to the value chain leading to the Village Phone Users (VPUs) found in the third layer (outer blue oval). The VPUs are essential to realize the mobile-telephony purpose of the value network. In the second layer are also found organizations that act as financial and equipment suppliers to the GrameenPhone JV and to Grameen Telecom, including the supplier of the mobile telephones for the VPOs. Finally, in the outer third layer, along with the village phone users (VPUs), Figure 1 also places those players with which the GrameenPhone network must maintain interconnectivity such as the fixed telephony network of the national telecom company BTTB (Bangladesh Telegraph and Telephone Board), the fiber optic network of Bangladesh Railways (BR), the other private cell-phone service providers and the roaming partners that enable international connectivity. The government is also in the third layer as provider of the license to operate the cellular telephony service in Bangladesh.

Table 2 contains short descriptions of the main players in today's VP strategic alliance. The technical partner is clearly Telenor that provides the GSM telecommunications technology and industrial expertise to GrameenPhone. Telenor is also the majority shareholder of GrameenPhone with 62% of the shares. Neither Telenor nor Grameen Telecom are suppliers of telecom equipment. Thus, both companies buy from suppliers such as Nokia for the cellular phone for the Village Phone Operators. GrameenPhone has become the largest telecommunications service provider in Bangladesh, covering urban and rural areas. GrameenPhone raises capital from a variety of financial sources.

**Table 2. Players in the Village Phone Strategic Alliance****Partners in the Core GrameenPhone JV (first layer in Figure 1)**

GrameenPhone is the largest telecommunications service provider of Bangladesh with about 20 million subscribers at June 2008. GrameenPhone operates in urban and rural areas establishing and maintaining the GSM telecommunications infrastructure. It is a joint venture owned by two institutional shareholders: Telenor (62%) and Grameen Telecom (38%).

Telenor ASA is Norway's leading telecommunications company and a leader in GSM (Global System Mobile) technology ([www.gsmworld.com](http://www.gsmworld.com)). It is listed in the Oslo Stock Exchange and Nasdaq since 2000 and the Norwegian State holds 54% of the shares as of March 2005. (Telenor, N.D.a)

Grameen Telecom is a non-profit organization established at the initiative of Grameen Bank. Grameen Telecom's developmental mission includes: (1) initiating a new income generating option for the villagers; and (2) bring the full potential of the Information Revolution to the Villagers using the telephone as a weapon against poverty. (GrameenTelecom, N.D.a, N.D.b)

**VP Alliance Members External to the GrameenPhone JV (second layer in Figure 1)**

Grameen Bank was founded in 1976 by Muhammad Yunus, who has championed microcredit (Grameen Bank, N.D.a) without collateral as a tool against poverty and for socio-economic development of poor areas. GB's equity is owned 94% by the poor borrowers of the bank who are mostly women [96%]; the remaining 6% is owned by the government." (Yunus, 2006a)

Village Phone Operators (VPOs) are the direct mobile telephony service provider to the people in rural Bangladesh. They play an essential distribution role in the value chain by servicing the end user and collecting the payments that enable them to pay their own suppliers, while earning a profit. The VPOs are mostly females, hence they are also known as Village Phone Ladies (VPLs).

**VPUs Realizing the Rural Purpose of the VP Alliance (third layer in Figure 1)**

Village Phone Users (VPUs) are the millions of Bangladeshi citizens consuming the mobile telephony service made possible by the other members of the VP strategic alliance. It includes the millions of poor people living in rural Bangladesh who cannot afford to buy a mobile telephone.

To reach the poor in rural areas, GrameenPhone sells to its minority shareholder, Grameen Telecom, bulk airtime at discounted price. This discounted bulk airtime sustains the Village Phone Programme (VPP), an innovative value chain that successfully brings mobile connectivity and multiple benefits to Bangladeshi villagers. It works as follows:

GTC has an understanding with GrameenPhone whereby GTC purchases airtime in bulk for all the VPs [village phones] in operation. GP prepares the monthly bills and send these for payment. GTC prepares individual bill in Bengali, the local language and send these bills to the corresponding Grameen Bank branches with a bill summary for a particular branch. Grameen Bank collects the VP bills along with its other dues. The concerned Grameen Bank branch pays the bill to GTC within the last date of payment. (Grameen Telecom, N.D.a) ... [In addition] ... Grameen Bank provides loans to the Village Phone Operators to buy the hardware equipment from Grameen Telecom. (Keogh and Wood, 2005, p.72)

This business model has successfully served the purpose of creating a very profitable mobile telephony-company, providing services across the entire Bangladeshi territory and, particularly, to the millions of poor people living in the rural villages of the country. Historically, however, the members of the Village Phone alliance and, specifically, of its core GrameenPhone joint venture have not been always the same nor have they possessed the equity shares of today. In fact, Telenor and Grameen Telecom have arrived to their respective 62% and 38% equity shares in GrameenPhone JV after a governance-shaping process that witnessed clear power play in the original definition and subsequent evolution of the equity distribution inside the joint venture. To understand the evolution of this governance-shaping process, it is necessary to introduce two additional players who are no longer in the GrameenPhone JV but who played substantial roles in its formation and initial development. These are Gonofone Development Corp. (GDC), a New York-based enterprise operating as an investment firm and Marubeni Corp., a Japanese general trading company acting in multiple markets, including telecommunications, agriculture, chemicals, energy, finance, logistics, etc., (Marubeni, 2005). Let us see now the comparative features and inter-dependences of the full original members of the VP strategic alliance.

### ***1.2 Comparative Overview of Features and Inter-dependences of the Members of the Village Phone Strategic Alliance***

Table 3 shows in succinct fashion the resource-dependences and dominant resources and capabilities of each of the parties in the Village Phone alliance. A glance immediately shows that the inter-relations of the members inside the VP alliance are substantially different from those of the many inter-firm alliances that have been profusely examined in the literature since the 1980s. It is worth highlighting the cases of Marubeni and Gonofone Development because Table 3 shows them in a much weaker integration than the other members in the value chain leading to the provision of mobile telephony to rural Bangladesh. In particular, it is possible to see that all parties have resource-dependences but only 4 have “sustained dominant resources and capabilities” – Telenor, Grameen Telecom, GrameenPhone and Grameen Bank. Gonofone Development exhibit “temporal dominant resources and capabilities,” and Marubeni, the individual village phone ladies and individual users show none.

**Table 3. Resource-dependences and Dominant Resources and Capabilities of the Constituents in the Village Phone Strategic Alliance**

<b>Organization</b>	<b>Resource-dependences</b>	<b>Dominant Resources and Capabilities - Sustained or Temporal</b>
<b>Telenor ASA</b>	Lacks telecom infrastructure and knowledge of the rural and urban markets in Bangladesh. Depends on GrameenPhone, Grameen Telecom and Grameen Bank.	<i>Sustained:</i> leading GSM technology and telecom service capabilities
<b>Grameen Telecom (GTC)</b>	Lacks mobile telephony infrastructure and capability to serve directly the poor villagers of rural Bangladesh. Depends on GrameenPhone for “bulk airtime” provision and on Grameen Bank for accessing networks of microfinanced VPLs.	<i>Sustained:</i> Telecom service intermediation and fostering capabilities in rural areas, including rural network of VPLs and offices in close association with Grameen Bank network.
<b>GrameenPhone (GP)</b>	Lacks proprietary GSM technology and direct access to distribution networks for provision of telephone services to rural villagers. Depends on Telenor for technology and Grameen Telecom / Grameen Bank for access to the rural market.	<i>Sustained:</i> national GSM telephony infrastructure and capability and direct service provision in urban areas of Bangladesh
<b>Grameen Bank (GB)</b>	Lacks telecommunications expertise and for this reason helped create Grameen Telecom.	<i>Sustained:</i> Microfinance resources and capabilities, including large network of offices, personnel and borrowers across rural Bangladesh
<b>Gonofone Development</b>	Lacks telecommunication technology and capabilities as well as rural distribution network. Depends on GrameenPhone, Grameen telecom and Grameen Bank.	<i>Temporal:</i> Vision, network-building and capital raising
<b>Marubeni</b>	Lacks telecommunications technology and capabilities necessary or requested for the realization of the mobile telephony service in urban and rural areas of Bangladesh.	<i>None</i>
<b>Village Phone Ladies (VPLs)</b>	Lack funds and knowledge to start a telephone distribution enterprise. Depend on Grameen Bank for microfinance to buy telephone service kit, Grameen Telecom for telecom business training, and GrameenPhone for service support.	<i>(Individually) None</i> <i>(Collectively) Sustained:</i> distribution service to rural users
<b>Village Phone Users (VPUs)</b>	Lack money to buy a telephone and maintain own subscription. Depend on GrameenPhone, Grameen Telecom and VPLs for access to mobile telephony.	<i>(Individually) None</i> <i>(Collectively) Sustained:</i> payment and realization of the value network service

It must be noted, however, that both the VP ladies and the VP users, collectively, have “sustained dominant resources capabilities” in the sense that they play essential roles in

the realization of the value network. For instance, if the VP Users were to move away in large number to a competitor network, then, they would clearly affect the evolution of the VP alliance. Insofar as they act as individual units, however, they are not able to exercise any real power. It is now possible to face the “dynamic part” of the paper, that is, the evolution of governance-shaping in the VP alliance, as manifested in the formation and development of equity in its core GrameenPhone JV.

## **4 Governance-Shaping Process in the GrameenPhone Joint Venture**

This section deals with the process of governance-shaping in the evolution of the VP alliance, concentrating on the evolution of equity shares in the GrameenPhone JV from formation to first institutionalization and consolidation.

### ***4.1 Formation of the VP Alliance and the Heyday of Gonofone Development's Power***

The Village Phone alliance started as usual with the synergies of visions of a few people wishing to solve a problem, exploiting a new opportunity, or both. In this case, the original vision goes back to 1993 and came from Iqbal Quadir, a Bangladeshi working in the venture-capital profession in New York. Quadir foresaw the business-and-development opportunity of bringing mobile telephony into rural Bangladesh. He reasoned: “The provision of connectivity to the rural areas meant development of those areas while, from a business perspective, it meant tapping into the neglected rural market constituting 80% of the population and at least 50% of the economy.” (Quadir, 1999)

Quadir knew little about telecommunications so begun to do research on the sector and reinforced his conviction that his original vision was right. He envisioned an optimistic future where others saw massive problems and perhaps the impossible. Visscher (2005) quotes Tawfiq-e-Elahi Chowdhury, Bangladesh's former Energy Secretary and friend of Quadir, “I thought, has this man gone crazy? ... This is Bangladesh, I told him. People

here don't have enough to eat. What would they do with mobile telephones?" The latter was not surprising, after all the realisation of Quadir's vision implied tackling a problem of massive proportions. To start with, Bangladesh's telecommunications infrastructure and service was among the worst in the world. A 1998 study by the World Bank had reported that Bangladesh's telephone density of 0.39 lines per 100 people was one of the world's lowest; the waiting time for a connection was more than 10 years and the installation charge of US\$ 450 for a new line was one of the highest in the world; and, on average, only 2 of 10 calls were successfully completed. (Quoted in Bayes, 2001, p.262) Moreover, Bangladeshi rural areas, housing nearly 100 million of a total of 120 million people, suffered from a general shortage of institutional and technical infrastructure: roads for repairmen, customers' records for credit-scoring, access points for subscribers or collection of bills, etc. In addition, the governance of the telecommunications market/industry was extremely unfavourable with a closed market monopolised by the government telephone company BTTB (Bangladesh Telegraph and Telephone Board). In fact, without a change in this monopolistic governance of the industry, Quadir's vision would have remained in the realm of dreams. It was precisely because there was an indication of change in the country's telecommunications governance that Quadir saw the opportunity. In 1993 the Government of Bangladesh was preparing to issue cellular telephony licenses the year after, in 1994. The fixed-line network would remain under the monopoly control of BTTB.

Quadir started a process of alliance-building bringing some distinctive resources and capabilities to the fore: vision, determination, persistence, risk-taking, investment knowledge and a burning ambition to realize a dream. These were the resources and capabilities of a "pragmatic dreamer," as Quadir sees himself. Anything else was missing, capital, telecom expertise and infrastructure, distribution networks, organization, etc. He began a long peregrination to identify and bring together the organizations with the resources and capabilities necessary to bring mobile telephony to rural Bangladesh. By default he was the only possessor of "main resources and capabilities" and, effectively, there were no "power asymmetries" since he alone held the existing resources and capabilities of the emerging alliance. He could shape governance and decide how to go forward but he could

not fulfil the dream without the telecom resources and capabilities of others. He had a huge resource-dependence but no organizations upon which to depend for the necessary resources. Telecom companies were not impressed, the Bangladeshi poor did not look like a good business opportunity; development was not their concern.

Quadir was inspired, however, by one outstanding institution from his home country – Grameen Bank (GB), the micro-credit business that has helped transform into micro-entrepreneurs millions of people, mostly women, who before filled the ranks of the world's poorest. The Bank operated in 35,000 villages with 1,100 branches, 12,000 workers and 2 million borrowers who received loans without any collateral guarantee and who paid back their loans in 97% of the cases. Typically, a woman would receive a loan to buy, say a cow to start a micro-enterprise and with the income generated she would pay the loan and remain in business. Quadir envisioned the Grameen Bank's network as a distribution network to aggregate connectivity demand from the poor villages of Bangladesh. Quadir took his ideas to Muhammad Yunus and Khalid Shams, founder and second top person of the Grameen Bank respectively. "A cell phone could be a cow" (*The Economist Technology Review*, 2006, p.37), foresaw Quadir. A woman could acquire a micro-credit loan to pay for the phone, generate income by selling phone services to fellow villagers, and pay back the loan with part of the resulting income, leaving a surplus for her own. The business model would thus have the double benefit of creating self-employment and bringing connectivity and development to all rural Bangladesh. Following a period of doubts, Quadir was invited to pursue the idea further and, this time, the Grameen Bank's "main resources and capabilities" were potentially available, including the bank's international reputation and contacts, a resource of strategic importance in the search for a foreign telecom operator. It was the early signs of "dominant resources and capabilities" and "power asymmetries," since the Grameen Bank's main resources and capabilities were deployed only as a potential, although the bank's reputation could already have practical influence. For all purposes, Quadir's "main resources and capabilities" were dominant at this early stage of network formation. Indeed, to the extent that Grameen Bank had agreed to support his efforts to pursue the idea, Quadir's power had increased via a form of French and



Raven's "legitimate power" resulting "from delegation or granting of power to a party by a legitimizing agent or authority" (see above).

In early 1994, Quadir left his venture-capital job and went to a socially-conscious US banker, Joshua Mailman, founder of the Social Venture Network (<http://www.svn.org/organization.html>) to proposed to him the creation of a company in which both would have a fifty-fifty equity. Mailman contributed US\$100,000 and Gonofone Development Corporation (GDC) was born in 1994, the first new organization and manifestation of the governance-shaping process of the emerging alliance. Quadir chose the name Gonofone because in Bengali it means People's Phone.

The involvement of a telecom partner was now the key to the full structuring of the alliance as a force capable of applying credibly for one of the coming licenses and, if successful, taking mobile telephony to rural Bangladesh. Quadir, now Gonofone Development (GDC), continued to try to persuade telecom companies, while Grameen Bank helped to promote the case at home by organizing seminars and meetings with government officials and other relevant stakeholders. In August 1995, the government finally issued the call for licenses for private sector mobile phone operators, thus changing dramatically the Bangladesh's telecom governance, and opening the way for the dream of the "cellphone could be a cow" to become a reality. The call for tender for the licences boosted the alliance-building process and, finally, the much sought after telecom operator was found in Telenor ASA, Norway's leading telecommunications company, while Grameen Bank proceeded to create Grameen Telecom (GTC), as a non-profit organization managing the Grameen Bank's nascent interests in telecommunication, including the provision of telecommunication services in Bangladesh's rural areas and sales agency.

Telenor's decision to join the emerging alliance completed the value network necessary for the telecom license bid. There are various reasons why Telenor became the telecom partner of the village phone alliance, among them, the fact that, at the time, Telenor was a public company preparing to float part of its shares and was beginning to implement a



strategy of international expansion based on its leading GSM cellular telecommunications technology. This technology was well aligned with Bangladesh since it was central to the government's call for cellular licensing. The license was also national - urban and rural- so Telenor could exploit the much less risky urban markets. As often happens, however, it was one person in the right place who contributed decisively to the company's decision. This person was Telenor's CEO, Tormod Hermansen. He quickly aligned with Quadir's vision: "I think I wanted to participate because I share an interest with Quadir in combining development with doing business. I'm interested in bottom-up development and saw in this an effective way to help a population to move forward." (Quoted in Visscher, 2005)

At the beginning of November 1995, Telenor, GTC and GDC signed a Consortium's Memorandum of Understanding and proceeded to submit a bid for one of the cellular telephony licenses to be issued by the government. A new triadic organization was now formalized, although for all practical purposes Grameen Bank was a fourth operational member behind Grameen Telecom. The change of organization meant a change of governance and as Pfeffer (1992) points out: "[o]rganizational change often, if not inevitably, involves changes in the distribution of power." (Pfeffer, 1994, p.301) Indeed, the process of governance shaping was now in the hands of 3(4) players, of which GDC was the only one without distinctive role in the emerging value network necessary for the eventual provision of telecom services (see Table 3 above). Gonofone had been the original alliance-builder, but these "dominant resources and capabilities" had now reached the end of its temporality. Paradoxically, success came along with a dramatic change of "dominant resources and capabilities" and "power asymmetries," primarily in favour of Telenor.

#### **4.2 First Institutionalization of the VP Alliance**

Telenor was the only player technically capable of putting together a bid for a mobile telephony operation with the credibility of being a leading player in the GSM industry (French and Raven's *expert power*). At this stage, the microfinancing and rural network resources and capabilities were less decisive since no service was yet under way. For GDC, the

loss of power was irreversible and with serious consequences for the governance-shaping aspirations of the company, just as Pfeffer (1994) implies: “[t]he difference between the interests of the larger system and the interests of the individual is probably nowhere clearer than in examining instances of the loss of power.” (p.302) Nevertheless, the fundamental contribution of GDC to the formation of the alliance was formally recognised in the valuation of funds, resources and services contributed by each of the three partners in the Consortium. Each of the partners was accorded an equal value of US\$600,000 for their contributions, demonstrating that up to the point of the bid the main resources and capabilities of Telenor, Grameen Telecom(Grameen bank) and Gonofone Development were considered *a la par*. In March 1996, Marubeni joined the alliance and the core group reached four members in the Consortium plus the Grameen Bank.

In June 1996, the partners took the decisive governance-shaping step of creating a joint venture under the name of GrameenPhone Ltd. (Telenor Invest *et al.*, 1996). This development opened a bargaining situation in which the partners’ equity expectations or aspirations came to the fore and, not surprisingly, the sum went over 100%. Telenor and GTC(GB) both wanted majority shareholding while GDC aspired to a share equity of about 10%, a similar figure to that eventually taken by Marubeni. The final result gave Telenor 51% of the joint venture, Grameen Telecom 35%, Marubeni 9.5% and Gonofone Development 4.5. These figures broadly reflected the structural power asymmetries and “dominant resources and capabilities” at the beginning of the joint venture, including contributions of capital, technical capabilities, associated risk-taking, etc. The exact figures, however, were the result of bargaining in which elements as commitment, promises and deferred rewards came to play in a context where the “total capital power” of the JV was expected to grow significantly.

A basic fact was that Telenor, through GrameenPhone, was aiming to invest heavily in telecom network infrastructure and service in both the urban and rural Bangladeshi market. In fact, the urban market was potentially much larger and without it the rural venture was not sustainable (see Table 4 below). Telenor’s investment and consequent risk, therefore,

especially at the beginning of the venture would be higher. Moreover, Tormod Hermanson was actually having difficulties to persuade Telenor's board to invest since "many knew nothing about Bangladesh, except that it flooded a lot." (Quoted by Sullivan, 2007, p.73) This gave Telenor a clear power asymmetry inside the strategic alliance, beyond the fact that Telenor's main resources and capabilities were, without doubt, considered central by the other partners who had eagerly searched for a telecom partner. Telenor had been the only telecom company prepared to take the risk so it was also clear that there were no other alternatives. Thus, in the language of social exchange theory, the company's had a clear positive connection and its power was the strongest from the point of view of Emerson's two criteria of value and scarcity. It was up to Telenor to use this power asymmetry to shape the governance of the alliance; and they did, so the company became the absolute majority shareholder with 51% equity and the right to appoint 3 of the 6 members of the board of directors, the Chief Executive, and the Chairman of the board for the first two years. (Telenor Invest *et al.*, 1996) As noted, "... the critical – attribute of equity is the ability to exercise contingent control by concentrating votes over the board of directors." (Williamson, 1998) In this case, the majority of the votes would be in the hands of Telenor. The company's bases of power had now added "legal legitimate power" (*de jure* power) to its substantial (*de facto*) "expert power" and, indeed, potential reward and coercive power.

Grameen Telecom and Grameen Bank operate in the rural market of the village phone ladies and with GrameenPhone supplying mobile phone connectivity ("bulk airtime") through Grameen Telecom. Thus, GTC(GB) expert power (and potentially reward and coercive power) is fundamentally rurally-based. As said, however, the rural commercial operation depended upon the urban operation but not vice-versa. This means that GTC(GB) have a positive connection in the exchange network regarding mobile service provision in rural areas but not in urban areas where Grameen Telecom has no presence. In addition, the risk of capital investment was more serious for Grameen Telecom, being a newly started non-profit operation. In sum, GTC(GB)'s structural power could not match that of Telenor, so the company became the second largest shareholder in the joint venture with a 35% share and the right to appoint 2 of the 6 members of the board of directors, including the

Chairman for the second 2 years after the start of the joint venture. After the first 4 years the Chairman was to be appointed by the board of directors. GTC(GB)'s aspiration to become the majority shareholder of GrameenPhone, however, did not disappear altogether. As part of the consensus-building process, it was deferred to the future through a promise included in the shareholders agreement in the form of Telenor's declared intention to reduce its equity from 51% to 35% within six years since the incorporation of GrameenPhone. (Telenor Invest *et al.*, 1996) Governance then would be reshaped creating a new dynamics of legal-legitimate power asymmetries. As Burr (2000) explains: "Telenor and GT will actually switch ownership positions: Grameen Telecom will sell its 35% share to Telenor and Telenor will sell its 51% share to Grameen Telecom, which will thus become the dominant partner and true manager of the system." (p.4) Furthermore, this step would open the way for a dramatic transformation of the governance of the entire village phone alliance and not just the governance of the joint venture. As Yunus explained in an interview:

Within six years Telenor (the majority owner of GrameenPhone) will reduce its holdings by 35%. Grameen Telecom will set up a mutual fund to buy those shares. Then we will sell shares in the mutual fund to Grameen Bank borrowers, who will become part owners of GrameenPhone. ... [The reason is that] ... As long as our borrowers are capable of working and generating enough income to take care of themselves, they're okay. But as they get older or become disabled, they become helpless. They become dependent on their children. We want to reduce that dependence. These shares will be a protection mechanism, a retirement fund. (*FastCompany Magazine*, 1997, p.60)

If materialized, such vision would have a substantial social impact by transforming large numbers of rural women into small shareholders of a major telecom operator. It would also make GrameenPhone the first nation-wide telecom operator to have the rural poor as owners of a substantial proportion of its shares. First however, Telenor would have to surrender its majority shareholding, even though this company's "dominant resources and capabilities" would still be the strongest power asymmetry.

The cases of Marubeni and Gonofone Development were substantially different from Telenor and GTC. They could not effectively claim the contribution of a critical or central

resource to the value network, let alone, power asymmetries that would have sustained a strong bargaining position. Thus, Marubeni was only useful for the initial capital investment and, in fact, such investment gave the Japanese company a 9.5% share and one member of the board in the GrameenPhone joint venture. In turn, GDC wanted about 10% share since it had given birth to the idea and played the fundamental role in bringing the partners together. But the reality was that its power asymmetry had come to an end, even though the value of its past contribution and possible useful advisory contribution in the future was recognized and valued, generating commitment, and giving GDC a kind of “referent power” in the bargaining process. GDC therefore took 4.5% (paid by increasing GDC’s own investing shareholders up to 12), without representation in the board of directors but, also, without resigning to the target of 10% share, since provisions in the shareholders agreement made explicit two important points: (1) the partners’ intention to take the joint venture to a public stock exchange, and (2) an agreement that GDC had the right to buy a proportion of newly-issued ordinary shares larger than its original 4.5%, while Telenor would buy a lower proportion than its 51%, and GTC and Marubeni would buy in their unchanged 35% and 9.5% proportions. (Telenor Invest *et al.*, 1996) This process would take GDC’s shares close to 10% while Telenor’s shares would come down in the same proportion as GDC’s share would increase. Thus consensus was achieved through a bargaining process based on structural power asymmetries and the establishment of a shareholders agreement that represented the contractual governance of the alliance at the formation of the GrameenPhone joint venture. The inclusion of intentions as deferred rewards in a non-zero sum dynamics of total power had made possible the achievement of consensus.

On 28 November 1996, the Bangladeshi government issued a nationwide license for GSM 900 cellular mobile phone services to GrameenPhone Ltd. along with licenses to three other companies. On 26 March 1997, GrameenPhone launched its service on the symbolic Independence Day of Bangladesh. This service included the Village Phone Programme (VPP), the operation aimed at changing the poverty-stricken face of rural Bangladesh. A new phase had started in village phone alliance and its process of governance-shaping.

### ***1.3 Success, Instability and Consolidation of the Contractual Governance of the GrameenPhone Joint Venture***

Success came rapidly the way of GrameenPhone as the company pursued an effective investment and marketing strategy across the country. Table 4 shows the growth of the company's total number of subscribers (urban and rural) and village phone ladies.

<b>Table 4. Evolution of Total and Rural Subscribers (VLPs) of GrameenPhone 1997 – 2005</b>		
Year	Total Subscribers	Village Phone Ladies
1997	17,534	28
1998	29,740	179
1999	60,534	1196
2000	193,588	3204
2001	471,047	9,222
2002	775,000	23,035
2003	1,158,000	45,500
2004	2,388,000	94,003
2005	5,542,000	191,000
2006	11,300,000	280,000
2007	16,500,000	(May) 300,000
June 2008	20,000,000	N.A.

Source. GP Annual Reports 1998-2006, Telenor Annual Report 2005, GP, 2008a, 2008b, GP, N.D.a, N.D.b, Also Information supplied by Syed Yamin Bakht General Manager. Information Dept. GrameenPhone Ltd.

In less than 4 years GrameenPhone broke even in 2000 and, then, has gone on to become the largest telecom operator of Bangladesh with initially over 60% of the market, and with about 50% in mid-2008. In 2004, the VPL subscribers had reached 4% of the total number

of GrameenPhone's subscribers - in 2007 this proportion had come down to 3.3% - but this did not reveal the full contribution of the rural market to GrameenPhone's revenues since the number of village phone users (VPUs) was very much larger. Indeed, in 2003, the proportion of the company's revenues accounted for by the rural market was 16.5%. In 2007, this proportion was 15.5%. The benefits accrued to rural Bangladeshi people include the creation of hundreds of thousands phone-based micro-enterprises and telephony access to most of the over 100 million Bangladeshi people living in the countryside. In the process, GrameenPhone has constructed a mobile network that covers almost the entire population with 11,000 base stations in about 6,200 sites in the country. In terms of jobs, in 2007, GrameenPhone had a 5,000 strong workforce of full-time, part-time and contractual employees and it was estimated that another 100,000 people working for vendors, suppliers and retailers were directly dependent on GrameenPhone for their livelihood. Most importantly for the digital inclusion of rural Bangladesh, GrameenPhone has begun the development of Community Information Centres (CICs) that build on its mobile telephony network to bring Internet access, voice communications, video conferencing and other services that can include email, content on health and agriculture, access to governmental forms, telemedicine, etc. (GrameenPhone, 2007, N.D.c). Through all this work, by now, the company has invested over US\$ 1.6 billion to provide network infrastructure and service to the entire country. The value of its shares has been multiplied many times over, meaning a huge increase in the joint venture's total power.

The partners' relative power at the first institutionalization stage of GrameenPhone, however, did not remain the same. In effect, success did not prevent a period of instability in the strategic alliance shaping the detailed contractual governance of the GrameenPhone JV (in connection with JVs instability, see Beamish and Inkpen, 1995; Inkpen and Beamish, 1997; Nakamura, 2005). When the dust came to settle about 2004, both Marubeni and GDC had withdrawn from the joint venture in a realignment that reinforced Telenor's power asymmetry in the contractual governance by taking its equity up to 62%, while GTC increased theirs to 38%. In between, the detailed contractual governance of the joint venture became the target of influence strategies aimed at re-shaping it, in a clear demonstration of the

agency's role of players in dynamics power asymmetries. The deferred aspirations of both GTC(GB) and GDC were both very much at the centre of the instability. On the one hand, the intention declared in the shareholders agreement that Telenor and GTC would swap their equity positions, did not materialize after six years of the formation of the company. Nor did the intention of introducing GrameenPhone to a public stock market materialize with the result that Gonofone was not able to increase its share from 4.5% to about 10% by buying a greater proportion of additional ordinary shares before the public offering. At the same time, Marubeni was not able to become a mainstream supplier of equipment in the value network.

### *1.3.1 Gonofone Development Corp.'s Surprise Move*

The attempt by GDC-Marubeni to change the equity power within GrameenPhone had a dramatic resolution with visible impact in the detailed governance of the joint venture. Emerson's four balancing operations of power inequality are relevant in this case, particularly "coalition formation" and "withdrawal." In addition, Marubeni's joining the joint venture as a result of GDC's alliance-building activities, could be interpreted as a form of "network extension" somewhat diluting the overwhelming power of Telenor and GTC(GB) in front of tiny GDC. If this was the case, it did not have much impact. More importantly was GDC's successful effort to persuade Marubeni to sell their shares to them. Marubeni had lost interest in their participation in GrameenPhone due to both: their lack of substantive role in the value network and the fact that the company was facing the impact of the economic crisis begun in Asia in the late 1990s. Marubeni was therefore ready for withdrawal on the basis of unfulfilled expectations, structural marginality and increased uncertainty in its environment. GDC read well the situation and began a bargaining process with Marubeni aimed at acquiring the Japanese company's shares in GrameenPhone. Eventually, Marubeni agreed to sell its shares to GDC in a move that could be seen as a "coalition formation" between the two weakest members of the exchange network, without really being a proper coalition, rather a merger or take over of equity shares that would result in a larger force of 14% equity under the control of GDC. This would have fulfilled



GDC's aspiration of about 10% equity and a place in the board of directors, simultaneously demonstrating that, as said above in relation to dynamic power asymmetries, this dynamism is "not just the result of external changes or the evolution of an organization. It can also be the result of changes proactively pursued by players in a collaborative venture." In the end, it was not to be because Telenor and GTC(GB) opposed the move on the basis that the shareholders' agreement also gave them the right to purchase. This led GDC to try "hostile" or "hard" tactics by threatening legal action but without having effective coercive power the legal path did not bear any fruit for GDC. At this point, in Emerson's (1962) words, GDC altered its motivational investment and decided "withdrawal."

The bargaining then moved to "conciliatory" and "rational" tactics as the issue then became the reward that GDC and Marubeni would exact for their shares and what proportion would Telenor and GTC take. The increase in GrameenPhone's shares value facilitated the withdrawal negotiations since they could realize a good return for their original investment. It was a case of changes in relative power being facilitated by an increase in the total power of the exchange network. Of the 14% equity available, Telenor bought 11% and GTC 3%, thus consolidating Telenor's total share at 62% and GTC's total share at 38%. Telenor's acquisition of 11% of the available 14% was disproportionate with regard to its 51% equity; in the same way as the 3% additional share taken by GTC was disproportionate with its 35% equity. The reason is found in the deferred reward accorded to GDC at the time of the formation of the joint venture, when GDC accepted 4.5% in exchange for the promise that at the time of issue of new ordinary shares GDC would have the right to buy a proportion of these new shares that would increase GDC's equity participation to about 10%. GDC therefore had more than just the 4.5% equity to bargain, the company could also exact some price for the shares that it was due to have in the future. This translated into a higher price for GDC's 4.5% shares than for Marubeni's 9.5%. So, instead of one set of shares at the same price, there were two sets with GDC's at a higher price. Telenor bought the entire 4.5% package from GDC for US\$33 million, repaying GDC's original US\$1.7 million investment many times over. Grameen Telecom bought only from the cheaper Marubeni share package at a proportion roughly in line with its existing 35% equity. The end result

was the consolidation of the complete dominance of Telenor in the equity governance of GrameenPhone in 2004.

#### *4.3.2 Grameen Telecom(Grameen Bank)'s Efforts to Revolutionise the Governance of the GrameenPhone Joint Venture*

GTC(GB) wants to see implemented the declaration of intention in the original shareholders agreement that would make them the majority shareholder in the joint venture (Telenor Invest *et al.*, 1996). Such a change however is not merely quantitative given the nature of the venture and, particularly, its hybridity of motives (mixed socially-business driven purposes). In effect, Telenor and GTC(GB) have different visions of the meaning of “mixed socially-business driven purposes.” As seen in Table 2, Telenor’s motive is “profit-making with CSR,” while GTC(GB) is “social-developmental (poverty-reduction) purpose with profit-making.” In practice, the latter translates in the radical idea -already implemented by the Grameen Bank- of making the village phone ladies part owners of the GrameenPhone joint venture. Of course, this means a revolution in the present Telenor-dominated equity governance with its “profit-making and social developmental purpose,” but no special shareholding concern for the VPLs. Were it to happen, this would be reflected in an upgrading of GTC(GB)’s rural-network resources and capabilities to the status of “dominant” in relation to the new goal of making the VPLs majority shareholders of GrameenPhone. Telenor’s mobile telecommunication resources and capabilities, however, would still remain dominant in terms of making a technical and business success of the joint venture.

So far, Telenor has not agreed to relinquishing its dominance in the equity governance of GrameenPhone, thus no revolutionary shift has taken place. GTC(GB) however are unhappy and twice have made strenuous efforts to seek the implementation of the original declaration of intention that would give them the majority control of GrameenPhone. The first attempt came immediately after the period of six years envisaged in the declaration had passed. Telenor did not comply as, by now, GrameenPhone had become strategically important to its interests with investments piling up into hundreds of millions of US dollars.

Since Telenor controlled the “legal legitimate power” inside GrameenPhone, apart from the power asymmetries deriving from its “dominant resources and capabilities,” it took the company not much effort to sustain its dominant position. It was a plain demonstration that, once created, formal contractual governance acts as a *de jure* power base helping regulate the behaviour of the parties in the core strategic alliance. In the words of Pfeffer and Salancik (2003) an important source of power “derives from the ability to make rules or otherwise regulate possession, allocation, and use of resources and to enforce regulations. In addition to being a source of power, the ability to make regulations and rules can determine the very existence and concentration of power.” (Pfeffer and Salancik, 2003, pp.49) At one point, GTC’s influence strategy was to try coercion by threatening legal action. It was found out, however, that the legal base to take the case forward was weak so in the event this option was not pursued. As Shams recalls, GTC(GB) engaged an arbitration lawyer in Sweden but, he “charged us an enormous amount of money and told us there’s no guarantee ... so we don’t want to risk it.” (quoted in CNNMoney, 2006) This left GTC(GB) with only a form of normative or value-based “legitimate power” to counter Telenor’s “legal legitimate power” and the result left GTC as second largest shareholder.

More recently, however, GTC(GB) had the opportunity to try again to force Telenor to give up its majority control in favour of GTC, as stipulated in the original declaration of intention. Unlike in the first attempt, this time it was the turn of external changes to create the opportunity for GTC(GB) to try to shift the power asymmetries inside the JV. In December 2006, Mohammad Yunus and Grameen Bank won the Nobel Peace Prize for their long-standing work on micro-credit for poverty reduction. The prize enhanced Yunus’ moral authority and gave him worldwide attention from the media and Norwegian political and civil society circles, and Yunus used the stage to demand the fulfilment of the declaration of intention to the embarrassment of Telenor, particularly because the Peace Prize ceremony takes place in Norway. The experience is rich in the use of tactics intended to force a power shift in equity governance and counter-tactics to maintain the *status quo* (see, for instance, Aftenposten, 2007; BBC, 2007; CNNMoney, 2006; Grameen Telecom, 2007; Johansen, 2007; Morshed, 2007; Yunus, 2006c).

In essence, GTC(GB) tried a form of Emerson's *extension* seeking to form new relationships that would extend the power network influencing the governance of the joint venture. The novelty was that the battle moved from the GrameePhone board to Telenor's own turf in Norway. The targets included Norwegian government, politicians, civil society, media and Telenor's own board and shareholders. GTC(GB) applied a variety of French and Raven's power bases, including morally-based "legitimate power" now much enhanced by the Nobel Prize; a form of "referent power" based on the "feeling of oneness" between some Norwegian politicians, media and civil society and GTC(GB)'s cause; and also a form of "coercive power" based on the ability to punish Telenor by throwing into question its carefully constructed image of a socially responsible company. *Hard*, *soft* and *rational* influence tactics were all used during the height of the conflict that lasted for several months, since December 2006. Yunus, who almost exclusively led the battle for GTC(GB), combined business philosophy arguments, with accusations and moves aimed at mobilizing support from Telenor's board, shareholders, government, politicians, the media and civil society to force a shift in Telenor's senior management. Simultaneously, Telenor's senior management sought to weather the storm by keeping the dispute strictly in the business arena. It re-asserted a market-driven business philosophy and presented as 'unrealistic' for GrameenPhone Yunus' philosophy of social enterprise owned by poor people. Telenor also sought to defend itself with a mixture of *defensive* and *offensive* statements aimed at neutralizing Yunus' accusations, while stressing the value of Telenor's contribution to both GrameenPhone and Bangladesh's development. It denied Yunus access to Telenor's board and rejected offers of mediation by a government minister sympathetic to GTC(GB)'s demands. By maintaining the business nature of the conflict, Telenor closed down any space for influence by politicians, civil society, and media, especially as the outcry did not really affect the standing of Telenor's shares in the stock market. Ultimately, the "business is business" philosophy prevailed over Yunus' "social enterprise" philosophy. By April 2007, Yunus had adopted a more conciliatory power tactics by dropping the demand that Telenor sell down to 35% and offering to buy 13% of Telenor's shares at market prices (US\$427 million) to gain just 51% majority ownership. He also sought to reassure Telenor that they would continue to run the management of GrameenPhone, *de facto* acknowledging

Telenor's "dominant telecommunications resources and capabilities." In so doing, Yunus argued that "Even profit maximizing companies can be designed as social businesses by giving full or majority ownership to the poor. This constitutes a second type of social business. ... The poor could get the shares of these companies as gifts by donors, or they could buy the shares with their own money." (Yunus, 2006c) This focused Yunus's philosophical stand on the issue of share-ownership by Bangladeshi poor people (VPLs), reassuring Telenor that poor women "are as eager as Telenor to make money and be paid dividends."

By mid-2007, Telenor had effectively weathered the storm. Yunus had accepted to become special adviser to the Norwegian government in a micro-credit project devoted to Africa and the collaboration also included funding for Grameen Bank. Not that GTC(GB) has ended its claim to majority shareholding of GrameenPhone, but clearly the window of opportunity to attempt an equity power shift opened by the Nobel Prize was closing down. The experience however did not leave untouched the governance of GrameenPhone. During the dispute, Telenor promised the market flotation of some of GrameenPhone shares, arguing that this would give more Bangladeshi people a stake in the success of the company, while allowing for the funding of new services for the country's poor. Strategically, it was the farthest-reaching move by Telenor since it simultaneously denies the ground for both (a) the criticism that GrameenPhone is basically a Norwegian company, excluding Bangladeshi people and, particularly, the Bangladeshi poor from the benefits created by the company, and (b) the realization of Yunus' dream of a "social enterprise" with VPLs as majority shareholders. It is true that even in the 1996 declaration of intention, Telenor had subscribed to the idea of an eventual initial public offering (IPO) of GrameenPhone shares but this did not materialize. Now, the promise was too publicly conspicuous not to be implemented and, according to Sullivan (2007), increased competition may also be a good reason for the market flotation. Thus, recently, in July 2008, the GrameenPhone Board has approved a proposal for floating an IPO of its shares, for expected gross proceeds of up to US\$ 150 million and listing on the Dhaka and Chittagong stock exchanges (GrameenPhone, 2008c). This GrameenPhone IPO clearly reflects renewed dynamism of power asymmetries in the

GrameenPhone JV, but without altering significantly the dominant power of Telenor with its profit-making plus CSR approach.

Looking back, over a decade has passed from Quadir's vision to today's very successful GrameenPhone and we have seen that its equity governance is still evolving. In that time, the governance at the core of the VP alliance has very much reflected the dynamic power asymmetries rooted in the players' structural and bargaining power. Simultaneously, the alliance has succeeded beyond expectations in realizing its hybrid profit-making and developmental aims, helping to bring connectivity and poverty reduction to Bangladesh.

## 5 Conclusions

This paper has dealt with one major problem posed by the alliance of heterogeneous organizations that has succeeded in taking mobile telephony to the millions of poor people in rural Bangladesh. This problem is *how to understand the evolution of the governance of the heterogeneous strategic alliance, illuminating the processes and factors behind its shaping and dynamics (i.e., governance dynamics)*. Three questions sharpened the focus on this governance-shaping problem (1) what are the basis of the relative power of the different players in the heterogeneous strategic alliance, particularly before the formalization of its core GrameenPhone JV; (2) how has this relative power influenced the evolution of the formally-agreed equity arrangement among the different players inside the core joint venture; and (3) what power tactics and strategies have the joint venture players applied to try to shape or re-shape the JV's formal equity governance.

The paper approached these questions through a review of relevant theoretical concepts concentrating primarily on the schools of resource-base view of the firm, power dependence, exchange networks, resource-dependence and bargaining power in inter-organizational relations. This review led to the development of the new concepts of "*sustained and temporal critical asymmetries*," "*dominant resources and capabilities*," and "*dynamic power asymmetry*." The entire battery of concepts was applied to the empirical analysis of the

governance-shaping process of the GrameenPhone joint venture at the core of the VP strategic alliance for a period of over a decade from the first steps in the build-up of the alliance in the mid-1990s until mid-2008. This was preceded by a brief analysis of the overall business model and value network responsible for delivering mobile telephony to Bangladesh.

The answer to the first of the three power-oriented questions highlights the role of “*critical asymmetries*” and “*dominant resources and capabilities*,” as the basis of the relative *de facto* power of different players in the heterogeneous alliance. The answer to the second question highlights the role of “*dynamic power asymmetries*,” manifested in the *temporality* and/or *sustainability* of the “dominant resources and capabilities” of the GrameenPhone players. The answer to the third question highlights the role of agency and bargaining power and the use of multiple power tactics in various attempts to re-shape the originally agreed JV’s equity. In the end, the story has shown that the mutually reinforcing combination of *de facto* and *de jure* power has given Telenor the complete control of GrameenPhone’s governance-shaping process, with the result that the company’s purpose has prevailed over those of the others within the hybrid venture.

The importance of developing sound theoretical basis for understanding the organizational nature and governance-shaping processes of experiences such as the Village Phone Constituency is that they constitute the leading-edge front in the battle against poverty and for development in some of the poorest areas of the world. By gaining an understanding of the models, challenges, risks, tribulations and achievements of these experiences, it might be possible for academics to contribute a bit to the enormous task of those “pragmatic idealists” who dare to face great human challenges by transforming dreams into realities.



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